

Major Projects Inventory 2011:

Newfoundland and Labrador Surges
Ahead in Major Project Activity

Atlantic Currents

AtlanticReport



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About APEC

The Atlantic Provinces Economic Council (APEC) is an independent, not-for-profit, research and public policy organization that seeks to advance the economic development of the Atlantic Region. APEC's revenue is derived primarily from membership, funded research and sponsorships. Our membership includes individuals, small and large companies, labour groups, academic institutions, municipalities and government agencies.

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Major Projects Inventory 2011:

NEWFOUNDLAND AND LABRADOR SURGES
AHEAD IN MAJOR PROJECT ACTIVITY

Feature Article Summary

- APEC's Major Projects Inventory identifies 354 major investment projects in various stages of development across Atlantic Canada with a total value of \$71 billion.
- The outlook for investment spending in 2011 is forecast to be positive in Newfoundland and Labrador, but investment in the three Maritime provinces is expected to be weaker.
- Government stimulus programs provided crucial support for the four Atlantic provinces during the recession but are winding down in 2011.
- Newfoundland and Labrador is currently dominating capital investment in Atlantic Canada and this will continue in the future due to its large resource potential.

The 28th edition of APEC's Major Projects Inventory identifies 354 major investment projects in various stages of development across Atlantic Canada. The total value of these projects is \$71 billion, marginally lower than last year. However, within this minor change there are more significant stories including the continued rapid growth in Newfoundland and Labrador and the end of public stimulus spending.

A Tale of Two Economies: Newfoundland and Labrador and the Maritime Provinces

Newfoundland and Labrador is a commodity rich province and the revival in commodity prices is helping to boost major project activity. The province has abundant quantities of oil, iron ore, nickel and copper all of which are in demand from rapidly expanding economies such as China and India. The pace of investment activity is at record levels and rising quickly.

Current-year major project spending is up 49% in 2011 to \$6.2 billion, after rising 30% in 2010. Nearly \$3 billion of this year's total is being spent on five large projects which have a total value of over \$17 billion. The Long Harbour nickel processing facility, the White Rose and Hibernia oilfield expansion projects, the Hebron Oil project and the Iron Ore Company of Canada expansion. These projects, along with the start of activity on the Muskrat Falls hydro project and associated electricity infrastructure are expected to keep spending at record levels over the next few years. The province's rising wealth is reflected in the urban boom around St. John's, both in residential and commercial developments.

Current-year major project spending in the three Maritime provinces will be lower this year ranging from a drop of 8% in Nova Scotia and 9% in Prince Edward Island to about 19% in New Brunswick. The end of government stimulus programs is the main factor with overall government spending down about

15% in the Maritime provinces in 2011 and the private sector to date unable to pick up that slack.

New Brunswick and Nova Scotia are seeing some up-turn in commodity-related investment, with prospective mining projects boosted by stronger prices for zinc and lead. New Brunswick's potash production will expand with a \$1.7 billion investment at the current mine near Sussex through to 2014 and plans are underway for another multi-billion dollar potash operation. On-shore natural gas exploration is also continuing in New Brunswick. In Nova Scotia, the \$1 billion Deep Panuke offshore gas project will begin producing this year but there are no plans for further offshore investment. Halifax will continue to be an important driver of activity in Nova Scotia with over \$1 billion in major project investment expected in both 2011 and 2012.

Public Stimulus Begins to Wind Down in 2011

Government stimulus programs

Atlantic Canada's Major Projects Inventory

Total Inventory Value

- APEC has identified 354 major projects in various stages of development across Atlantic Canada. The total value of these projects is \$71.3 billion, marginally lower from last year's Inventory.
- Newfoundland and Labrador accounts for the largest share of the Inventory value (61%), followed by Nova Scotia (21%), New Brunswick (16%) and Prince Edward Island (2%).
- There are also several projects identified that do not have a value attached – such as potential work at the Halifax Shipyard, a second potash mine in New Brunswick, underground mining at Voisey's Bay and a gravity-based drilling rig under consideration by Husky Energy – which all could lead to multibillion dollars in investment.

Current-Year Spending

- The value of current-year spending on major projects in Atlantic Canada is up 11% in 2011. The large increase in investment in Newfoundland and Labrador is more than enough to offset declines in the Maritime provinces.

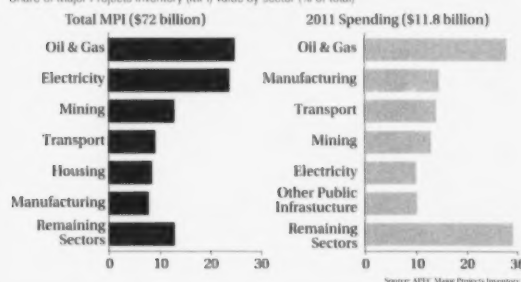
- In Newfoundland and Labrador major project spending is up 49% in 2011 to \$6.2 billion after rising nearly 30% in 2010. Major project investment in the three Maritime Provinces will be lower this year ranging from a drop of 8% in Nova Scotia and 9% in Prince Edward Island to a 19% decline in New Brunswick.
- The outlook for investment spending in 2012 is forecast to be positive in Newfoundland and Labrador, while investment in the three Maritime provinces is expected to be weaker. Public investment will fall 4% next year as stimulus spending continues to wind down especially in the Maritime provinces. However, private sector spending is expected to increase in all provinces except New Brunswick.

Other Highlights

- Energy-related projects are key to overall activity accounting for \$37 billion or 52% of total major project investment in Atlantic Canada and \$4.3 billion or 36% of 2011 spending
- Urban areas continue to play an important role in major project investment rising 11% in 2011 to \$2.4 billion.

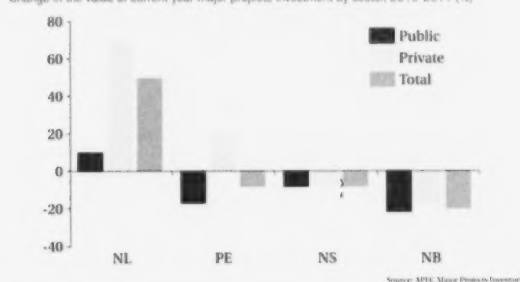
Current and Potential Investment Dominated by Energy and Mining-Related Projects

Share of Major Projects Inventory (MPI) value by sector (% of total)



Stronger Investment in Newfoundland and Labrador But Spending Weaker in the Maritimes

Change in the value of current year major projects investment by sector, 2010-2011 (%)



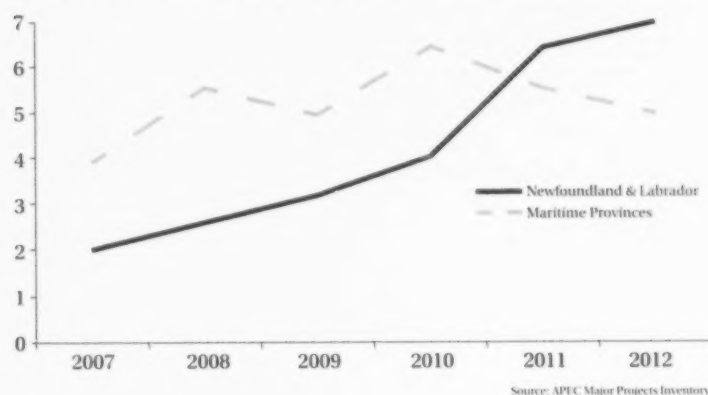
provided crucial support for the four Atlantic provinces during the recession. APEC estimates that between 2008 and 2010, over \$3.4 billion of incremental funding was provided by all levels of government to support major investment projects in Atlantic Canada. However, capital spending by governments will fall this year as the federal stimulus program comes to an end and provinces reduce their own stimulus commitments. The hardest hit areas of public capital spending in Atlantic Canada this year will be broad infrastructure programs (down \$318 million), transportation projects (down \$220 million) and education spending (down \$105 million). However, while provincial capital programs will be significantly lower this year, down about 19% to \$2.3 billion, this is still 43% above pre-stimulus levels. By 2012, provincial capital spending is expected to be closer to pre-stimulus levels. The exception will be Newfoundland and Labrador: its \$1 billion capital program will remain at the same level as the previous year, about 70-80% higher than capital programs in New Brunswick and Nova Scotia.

External Factors Influencing the Investment Climate

A number of competing factors are influencing major project activity in Atlantic Canada. While rising commodity prices are boosting the feasibility of many Atlantic projects, higher input prices for

Newfoundland and Labrador Investment Continues to Surge Ahead

Estimated value of current year major project investment spending (\$billions)



goods such as diesel fuel, asphalt, vinyl siding, steel, rebar and copper wiring are also increasing the cost of project development. Similarly while the strong Canadian dollar is beneficial for a company that is importing machinery from outside Canada, it can be detrimental to projects that are export focused. Project proponents in the region are also anticipating a rise in interest rates which will increase project financing costs. However, financing challenges have certainly eased since the depths of the financial crisis and the recession. Another external pressure to watch is the availability of labour as the pace of economic activity increases across the country. Labour shortages in key occupations and rising labour costs are already evident in some projects in Newfoundland and Labrador, and as mega-projects in

the Alberta oil sands, large hydro projects in Quebec and upgrades to transportation infrastructure in Ontario come into play, the pressure on labour costs across Canada is bound to increase.

The Outlook for Capital Investment

In the three Maritime provinces, the outlook for major project investment is muted. In Nova Scotia, major project spending is expected to stabilize next year as the private sector begins to pick up some of the slack. And an additional \$12 billion of potential projects is on the horizon. Nova Scotia may also benefit from the \$35 billion of shipbuilding contracts expected to be awarded this fall. The recovery in major project investment in New Brunswick and Prince Edward Island could take longer. Both provinces

are expected to take a further hit with major project activity forecast to decline by a 16% in 2012. New Brunswick has over \$9 billion in potential activity on the horizon including several mining and natural gas projects. Prince Edward Island will benefit from about \$1.4 billion in proposed projects with a large focus on expanding its wind power capacity over the next decade.

Newfoundland and Labrador will

continue to bound ahead. Major project spending in 2012 is expected to increase by about 8% mainly due to increasing activity on the Hebron and Hibernia Southern Extension projects and early work on the Lower Churchill project. A further \$37 billion in major project investment is anticipated for the province in 2012 and beyond. Leveraging opportunities in Newfoundland and Labrador will be important for firms not only in that province but also to

the rest of Atlantic Canada. Maritime firms are already positioning themselves to take advantage of the opportunities: examples include the partnership between Emera and Nalcor on the Lower Churchill hydro project and the construction by Halifax's Hardman Group of a condominium project in St. John's.

Note: A searchable version of Major Projects Inventory 2011 is available on the APEC member website at www.apec-econ.ca.

About the Major Projects Inventory

APEC produces an annual project-by-project inventory of the major investment activity ongoing and proposed for Atlantic Canada. A "major project" is defined as any capital project valued at \$25 million or more (\$10 million or more in Prince Edward Island) that adds to the capital stock of the region. Larger projects without a currently declared value are listed for reference.

Projects are categorized into 12 major sectors:

EDU - education and research capital spending including schools, universities, colleges and research institutes

ELE - electricity generation, distribution and electric utility capital spending

ENV - environmental upgrades spending including water and wastewater investment, site cleanups and programs supporting environmental infrastructure initiatives

HEA - health care infrastructure including hospitals and long-term care facilities

HOU - housing, including large scale developments of apartments, condos, townhouses, single family dwellings, social housing, or a combination of these types of housing

MAN - manufacturing and other primary capital spending which includes industrial construction by manufacturing and primary industries (other than oil and gas and mining)

MIN - mining industry capital spending including new mine development, expansions to existing mines and mineral exploration

O&G - oil and gas capital spending including offshore and onshore oil and gas exploration, extraction and distribution

OTH - other public infrastructure projects including broad federal infrastructure programs, defence infrastructure, justice facilities and government office buildings

REC - recreation and tourism infrastructure including recreation facilities (rinks, pools, multipurpose facilities) and tourism developments (hotels, resorts, golf courses, arts and entertainment)

SER - other services including capital investment in telecommunications, retail and commercial construction

TRA - transportation infrastructure spending including highways, bridges, airports, ports, rail and public transit

Newfoundland and Labrador Major Projects Inventory

Summary – All Projects

- APEC has identified 103 projects totalling \$43.6 billion which is up 16% over last year's Inventory. The main reasons for the growth are the increase in valuation of the Hebron Oil project and the addition of planned mining projects in Labrador.
- The largest projects in the Inventory are the Hebron Oil project (\$8.3 billion), and the Muskrat Falls Hydro project (\$5 billion).

Current-Year Spending

- The value of current-year spending in 2011 is up 49% to \$6.2 billion which is largely due to an increase in pre-construction work on the Hebron Oil project and greater spending at the Long Harbour nickel processing facility.
- These two projects will also have the largest expenditures in 2011 along with the White Rose expansion, the Hibernia Southern Extension project and the Iron Ore Company of Canada expansion in Labrador.
- Major project spending will increase further in 2012 as investments at the Hebron oil project and the Hibernia Southern Extension grow and early work on the Muskrat Falls Hydro project gets underway.

Projects by Industry (\$ millions)

	2011	2012+
Oil & gas	2,593	14,074
Manufacturing/other primary	1,031	3,407
Mining	797	6,747
Transportation	395	511
Other public infrastructure	300	265
Health	285	1,646
Electricity	260	9,365
Housing	214	797
Education and research	176	85
Other services	131	200
Environmental infrastructure	50	127
Recreation/tourism	25	69
Total	6,257	37,293

Prince Edward Island Major Projects Inventory

Summary – All Projects

- APEC has identified 39 projects totalling \$1.7 billion, down 6% over last year largely due to a scaling back of public sector spending programs for transportation, health and education.
- The largest projects in the Inventory are the current and future phases of the province's wind energy plan (an estimated \$760 million) and the five-year transportation capital plan (\$218 million).
- The electricity sector, including wind generation, accounts for 53% of all identified investment in the province.

Current-Year Spending

- The value of current-year major project spending in 2011 is down 9% to \$321 million due to slowing public infrastructure spending. The public sector accounts for 73% of major project spending in 2011, the highest share in the region.
- The largest expenditures in 2011 will come from provincial capital spending on transportation and health care including upgrades to seniors homes.
- Investment on major projects in 2012 will be about 17% lower as public stimulus funding falls further.

Projects by Industry (\$ millions)

	2011	2012+
Health	53	23
Other public infrastructure	46	10
Transportation	43	288
Education and research	39	76
Electricity	38	860
Other services	36	10
Manufacturing/other primary	28	0
Recreation/tourism	18	17
Environmental infrastructure	11	52
Housing	9	53
Mining	0	0
Oil & gas	0	0
Total	321	1,389

Nova Scotia Major Projects Inventory

Summary – All Projects

- APEC has identified 130 projects totalling \$14.7 billion. This is up 2% largely due to the addition of the frigate upgrade program at the Halifax Shipyard and the Nova Scotia portion of work on the Maritime Link undersea cable for the Lower Churchill hydro project which more than offsets the removal of the cancelled Maple LNG project from the Inventory.
- The largest projects underway are the Bedford West housing development (\$1 billion) and the Deep Panuke natural gas project (\$960 million).

Current-Year Spending

- The value of current-year spending on projects is down 8% in 2011 to \$2.9 billion due a decline in public infrastructure spending and less planned investment for wind farms.
- The largest expenditures in 2011 will go toward Nova Scotia Power's capital spending for renewable energy projects, provincial transportation capital spending and Bell Aliant's capital program.
- Spending on major projects is expected to be slightly lower in 2011 as weaker public infrastructure spending will not be completely offset by increased spending by private sector firms.

Projects by Industry (\$ millions)

	2011	2012+
Electricity	457	1,243
Housing	441	4,048
Other public infrastructure	426	581
Transportation	402	2,282
Other services	307	989
Manufacturing/other primary	201	693
Oil & gas	200	453
Education and research	191	294
Health	108	52
Environmental infrastructure	80	140
Recreation/tourism	79	644
Mining	10	330
Total	2,902	11,749

New Brunswick Major Projects Inventory

Summary – All Projects

- APEC has identified 82 projects totalling \$11.4 billion. The Inventory value is 36% lower than last year, mainly due to the removal of more speculative projects such as a \$2 billion energy corridor plan, natural gas pipeline projects and a cancelled solar cell plant.
- The largest projects are a proposed second nuclear power plant (\$4 billion) the ongoing potash mine expansion (\$1.7 billion) and the plan to twin the highway between Shediac and Miramichi (\$942 million).

Current-Year Spending

- The value of current-year spending in 2011 is down 19% to \$2.3 billion as public investment declined due to the end of stimulus spending and wind farm investment also fell.
- The projects with the greatest expenditures in 2011 are the potash mine expansion and highway infrastructure spending.
- Major project spending in 2012 is expected to be 16% lower as public infrastructure spending continues to scale back and manufacturing investment slows.

Projects by Industry (\$ millions)

	2011	2012+
Transportation	523	1,664
Mining	435	1,096
Electricity	275	4,502
Other public infrastructure	257	176
Education and research	200	40
Manufacturing/other primary	182	190
Other services	173	119
Health	98	476
Recreation/tourism	55	167
Environmental infrastructure	44	228
Housing	42	542
Oil & gas	33	165
Total	2,317	9,365



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Atlantic Overview

- Economic growth remains strong in Newfoundland and Labrador but appears to have slowed in the three Maritime provinces.
- Provincial budgets in Atlantic Canada show some spending restraint.

Provincial Reports

- Newfoundland and Labrador's economy is growing strongly, well ahead of the national pace.
- Prince Edward Island is showing modest growth but employment and retail sales have been weak.
- Economic growth in Nova Scotia appears to have slowed in recent months.
- New Brunswick's economy is showing some weakness during the first part of 2011.

Spring 2011

Atlantic Currents

Companion to APEC's Atlantic Report

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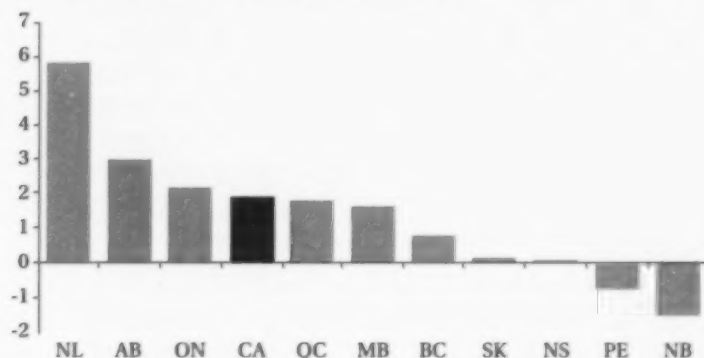
Growth Slows in the Maritimes

ATLANTIC OVERVIEW

- Economic growth remains strong in Newfoundland and Labrador but appears to have slowed in the three Maritime provinces.
- Higher global oil and food prices are boosting inflation in Canada with interest rates likely to increase in the coming months.
- Newfoundland and Labrador is the only Atlantic province projecting a surplus this year
- Provincial budgets in Atlantic Canada show some spending restraint.

Diverging Labour Markets in Atlantic Canada

Change in employment, Jan-Apr 2010 to Jan-Apr 2011 (%)



Source: Statistics Canada

Economic conditions in the early part of 2011 point to a continued divergence within the Atlantic region. Newfoundland and Labrador is powering ahead, leading the nation on a number of economic indicators. Meanwhile, economic conditions in the three Maritime provinces have slowed, lagging the ongoing national recovery.

This divergent trend is particularly evident in employment. According to Statistics Canada's Labour Force Survey, employment in Newfoundland and Labrador continues to increase, up 5.8% over the first four months of 2010. Employment in the other Atlantic provinces is flat, or down from last year. As a result, unemployment rates are somewhat higher than last year in the three Maritime provinces, but have edged down in Newfoundland and Labrador.

Not surprisingly, these labour market trends are affecting consumer spending. After stripping out the effect of higher gasoline prices, the three Maritime provinces show a decline in retail sales in the first two months of 2011, compared with an increase nationally. However, retail spending was up in Newfoundland and Labrador, helped by strong motor vehicle sales.

These divergent trends are likely to continue throughout 2011, with Statistics Canada's investment intentions survey pointing to a large increase in total capital investment in Newfoundland and Labrador, buoyed by its mining and offshore oil industry, but with declines forecast in the other Atlantic provinces, reflecting in part the winding down of public sector infrastructure stimulus spending.

The Canadian dollar is forecast to remain above parity against the US dollar until at least the first half of 2012, limiting the benefits of the broader global recovery for Canadian and Atlantic exporters. The US economy is expected to continue to strengthen in 2011 helped by an improving labour market and rising business investment. Strong growth in emerging markets continues to drive global growth and underpin the rise in commodity prices, although some prices have also been affected by supply issues. While the rise in commodity prices is benefiting resource producers in the Atlantic region, price hikes are less favourable for consumers and other businesses.

Higher energy and food prices are contributing to what is expected to be a temporary boost to the headline

inflation rate, nationally and across the Atlantic region. The Bank of Canada expects the underlying core rate of inflation to rise to its 2% target by the second quarter of 2012 as excess capacity in the economy is absorbed. Several forecasters currently expect the Bank of Canada to begin raising interest rates in July, with an increase of one percentage point in the target overnight rate by the end of the year. The Conservative government will introduce a new budget, which is likely to be little changed from the federal budget originally tabled in March.

Provincial Budgets

Newfoundland and Labrador is the only Atlantic province projecting a surplus this year, although it expects to slip into deficit in the following two fiscal years. Prince Edward Island's deficit will shrink slightly to 0.8% of GDP in 2011/2012. Prior year revenue adjustments booked in 2010/2011 and double-booking of university funding in 2009/2010 is adding volatility to Nova Scotia's revenue and expenditure profile. Following a surplus last year, the province expects to record a deficit equivalent to 1.1% of GDP in 2011/2012. New Brunswick's deficit will shrink substantially to 1.5% of GDP. With Newfoundland and Labrador continuing to increase its capital spending, all four provinces will see an increase in their net debt levels in 2011/2012.

Revenues are expected to grow only modestly, with declines in royalties in the two offshore provinces. There were limited fiscal measures with some increases in tobacco taxes in Prince Edward Island and New Brunswick and a cancellation of further personal income and corporate tax cuts in New Brunswick. New Brunswick and Nova Scotia trimmed the small business tax rate while Newfoundland and Labrador introduced a residential energy rebate and a child care tax credit.

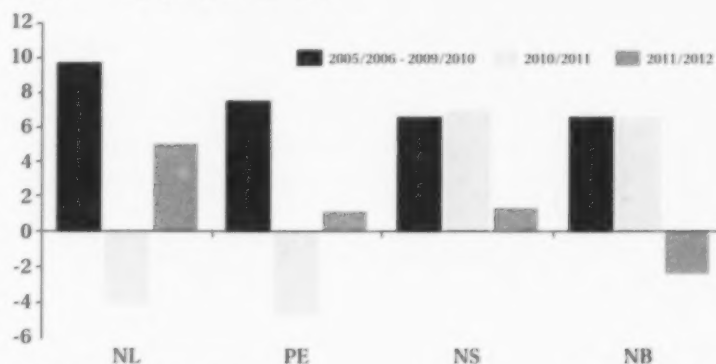
Total federal transfers to the Atlantic provinces will decline for a second consecutive year due to the wind-up of various trust funds, declining infrastructure funding, and lower offshore accord payments. This is despite the federal government extending transfer protection for a second fiscal year to prevent a

decline in the aggregate amount of the three major federal transfers (equalization, the Canada Health Transfer and the Canada Social Transfer) to the provinces.

On the spending side, there is some evidence of restraint with total program spending growth in 2011/2012 forecast to be well below the strong expenditure growth recorded in recent years. The three Maritime provinces all have some form of spending review in place along with restraint in public hiring and/or wages. The three Maritimes provinces also instituted cuts to this year's capital spending.

Some Spending Restraint Evident in Provincial Budgets

Change in annual program expenditures (%)



Note: Nova Scotia numbers adjusted to remove double-booking of university funding in 2009/2010.

Source: Finance Canada, Public Accounts, Provincial Budgets, APEC.

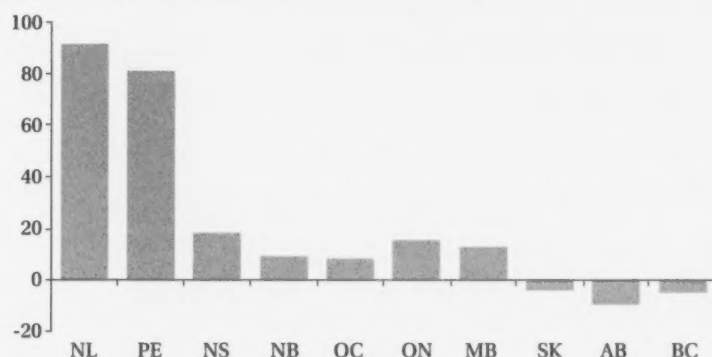
Newfoundland and Labrador

PROVINCIAL REPORT

- Newfoundland and Labrador's economy is growing strongly, well ahead of the national pace.
- Oil output is down despite higher oil prices.
- Crab and shrimp prices are higher but there have been reductions in quota.
- Higher oil prices are helping to strengthen Newfoundland and Labrador's budget balance, sustain program spending.

Newfoundland & Labrador Leads the Country in Non-Residential Investment

Change in non-residential investment, 2010 Q1 - 2011 Q1 (%)



Source: Statistics Canada

Current Conditions

Following on from GDP growth of about 6% in 2010, Newfoundland and Labrador's economy is continuing to grow strongly in the early part of 2011, well ahead of the national pace.

The province had strong export growth of 23% in the first two months of 2011, led by refined petroleum and iron ore exports. Refined petroleum exports are higher this year because of unplanned maintenance at the Come by Chance refinery early last year, which lowered 2010 totals. Crude oil prices have also jumped almost 19% in the first quarter of 2011. The provincial government forecasts the value of iron ore shipments to rise almost 19% in 2011. Mineral exploration is expected to rise to \$127 million in 2011, while the value of mineral shipments for all

minerals is forecast to increase 27% to \$4.8 billion this year.

The strength of the resources sector was also evident in non-residential construction. Non-residential investment is up over 91%, leading all of Canada, with significant gains in industrial, commercial, and institutional investment. Statistics Canada projects a 37% rise in non-residential construction investment in 2011, mainly due to more capital spending in mining, oil and public administration.

Meanwhile, residential building is starting to cool down as housing starts declined 16% in the first quarter of 2011, with a large decline in single dwellings. Housing starts in St. John's fell 2% in the first quarter. The Canadian Real Estate Association forecasts a 7.4%

increase in existing home sales in the province in 2011.

Retail sales rose 4% in the first two months of the year. Strong gasoline prices account for the positive growth, as retail sales excluding gasoline are flat, despite an increase in motor vehicle sales and strong income growth. Employment increased 5.8% in the first four months of 2011, the fastest pace in Canada, led by public administration, construction and retail trade. Average weekly wages advanced 5.8% in the first two months of 2011.

Offshore Oil

Oil prices are expected to be about 36% higher in 2011, which will boost the value of production despite lower volumes. The province forecasts oil production will decline

14.7% in 2011 to 85.9 million barrels. Oil production in the first quarter of 2011 is down 11%, due to production at the Terra Nova offshore oil field being cut almost in half. Some wells at Terra Nova had their production halted due to the discovery of sour gas. Replacement of the turret on the Terra Nova floating production storage and offloading vessel has now been delayed until mid-2012. The Hibernia South Extension and the West White Rose Extension will produce oil from their respective first production wells by mid-2011. A development plan application was filed for the Hebron project in April with production scheduled to commence in 2017. The project has estimated recoverable reserves of 789 million barrels of oil.

Fishery

The value of seafood production rose 14% in 2010, due to higher landings and prices for shrimp. Shrimp prices have increased 34% to an average of 65 cents per pound in the second quarter of 2011 but the shrimp quota in shrimp fishing area seven will be reduced by 36% in 2011. Meanwhile, crab prices improved by 59% in 2011 to \$2.15 per pound, with a 1.5% reduction in quota. A recent report on fishing industry rationalization and restructuring, which included a proposed \$450 million cost to government for buying out fish harvesters and processors, has not been approved by government.

Budget

Newfoundland and Labrador is enjoying continued fiscal health on the back of high commodity prices, projecting a \$59 million surplus in 2011/2012. In 2010, oil royalties as a share of gross oil project revenues averaged 38% for Hibernia (including net profit interest), 35% for Terra Nova and 25% for White Rose. However, oil royalties are forecast to dip 6% in 2011/2012 as a result of lower production.

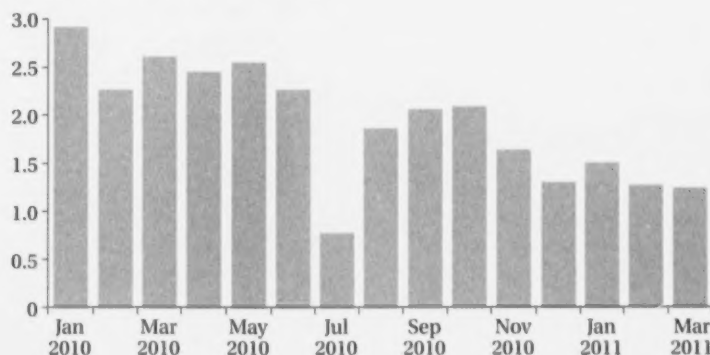
The budget introduced a \$38 million new residential energy rebate of the 8% HST that becomes effective October 1, 2011. A child care tax credit and a volunteer fire-fighter tax credit were also announced. Program spending is expected to increase 4.9% this year due to past wage settlements. The province announced \$4.3 million in training

funding for Corner Brook Pulp and Paper Ltd.

The Standard and Poor's rating agency upgraded the provincial government's credit rating to A+ in March, partly due to the province's laudable net debt-to-GDP ratio which is predicted to be 26.7% in 2011/2012 — the lowest in Atlantic Canada. Net debt is forecast to grow by \$459 million to \$8.68 billion as a result of the province's \$1.4 billion capital plan.

Sour Gas Problems Cuts Terra Nova Oil Production in Half

Oil production, Terra Nova (millions barrels)



Source: Canada-Newfoundland Offshore Petroleum Board

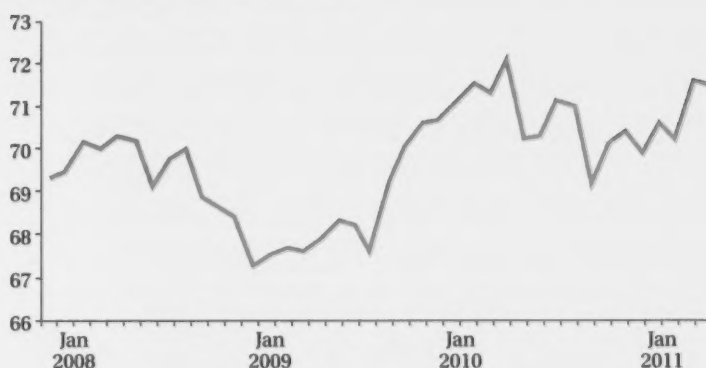
Prince Edward Island

PROVINCIAL REPORT

- The economy in Prince Edward Island is showing signs of modest growth but employment and retail sales have been weak.
- Market conditions suggest a marginal shift in potato production.
- The bioscience industry on Prince Edward Island continues to grow.
- Prince Edward Island continues to run a budget deficit despite tax increases and spending restraint this year.

Employment in Prince Edward Island Has Picked-up in the Last Two Months

Employment, Prince Edward Island (thousands)



Source: Statistics Canada

Current Conditions

The Prince Edward Island economy is exhibiting signs of modest growth in the early part of 2011 with gains in exports and construction, though employment and retail sales have been weak. This follows on from the province's GDP growth of 2% last year, when growth in agriculture, residential construction, trade and utilities offset a decline in manufacturing.

A 0.7% decline in employment over the first four months of 2011 was concentrated in retail trade, other services and construction, although employment picked up in March and April. This weakness weighed on retail sales which declined by 4.5% year-to-date, once higher gasoline prices are stripped out of the numbers. However, retail sales should see some support

from continued growth in average weekly wages, which rose 4% in the first two months of 2011, and from an increase in the minimum wage that will rise by \$1 by April 1, 2012. Longer-term, the province wants to boost tourism revenue by \$500 million by 2015, which would improve both retail sales and spending on accommodations and food services.

Home building on Prince Edward Island continues to be healthy, as provincial housing starts rose 135% in the first quarter with increases across all housing types. The Canadian Real Estate Association forecasts a 2.9% increase in existing home sales in 2011. By contrast, early strength in non-residential construction is expected to turn to an overall decline over the course of 2011. Non-residential investment

rose 81% in the first quarter of 2011, with increases across industrial, commercial and institutional investment. But Statistics Canada projects a 1.5% decline in non-residential construction investment in 2011, mainly due to less capital spending in the health, education, retail trade and information sectors.

Agriculture and Fisheries

Prince Edward Island's exports increased 6% in the first two months of 2011, with gains in table and seed potatoes partially offset by declines in french fry exports. Table potato prices are up 78% in 2011, but are still below their 2009 level. Potato growers for Cavendish Farms and McCain's also received an increase in the base price for 2011 but the Prince Edward Island Potato Board anticipates less acreage will be seeded with potatoes this year,

partially as a result of less demand from Cavendish Farms who are suffering from lower sales in a US market still struggling out of the recession. A few years ago, roughly 60% of Prince Edward Island's potato production was for processing. Present market conditions suggest a marginal shift away from processing towards table and seed potatoes as a result of poor crops elsewhere that have boosted table prices.

Prince Edward Island is coming off a record year for lobster landings and values in 2010, though lobster exports declined in the first two months of 2011 and will be further impacted by recent plant closures. Notably Ocean Choice International shuttered its lobster processing plant in Souris this spring, putting 300 people out of work and prompting the provincial government to move to recoup \$10 million in an outstanding loan from Ocean Choice. Earlier this year a plant run by Ocean Pride also announced its 120-person processing operation for mackerel, herring and lobster in North Lake would not re-open in 2011.

Bioscience

Prince Edward Island's bioscience industry continues to gain strength and now employs over 1,000 people at 40 companies. The first tenants of the BioCommons facility will be Island Abbey Foods and TetragenX Agro. Novartis Pharmaceuticals Canada Inc. is expanding its

operations in West Royalty by adding a third building, while Chemaphor Inc. is launching new animal health products. Six new research bioscience projects received \$15 million under the Atlantic Innovation Fund.

Budget

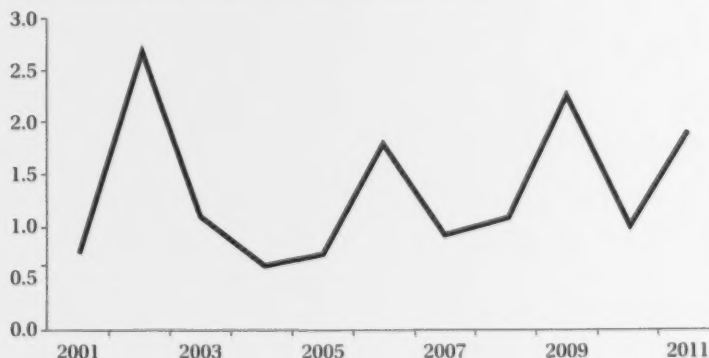
The provincial government continues to run a budget deficit with limited spending restraint this year. Its budget anticipates a \$42 million deficit in 2011/2012. The budget limits spending growth to 1%, while revenues are forecast to increase 1.9%, partially thanks to an increase in tobacco taxes. The government is hoping to achieve \$5 million in targeted savings, partly through the Energy Accord which will provide \$1.5 million in savings on the government's own electricity bill via a 14% reduction in electricity

rates. A further \$0.5 million in savings are related to lower government telecommunications costs. In relative terms, these targeted savings only represent 0.3% of total expenditures.

Spending pressures persist, especially for health, education and post-secondary learning. The health budget has been increased by \$17.6 million. Education spending on early childhood and kindergarten is being boosted by \$5.1 million. Operating grants to universities are being increased \$3.3 million. A large portion of the provincial government's civil service recently settled for a 2% annual wage increase over three years.

Potato Prices Recovering, But Remain Volatile

Average FOB potato price, 10 lb bag, third week of April, Canada (\$)



Source: Prince Edward Island Department of Agriculture

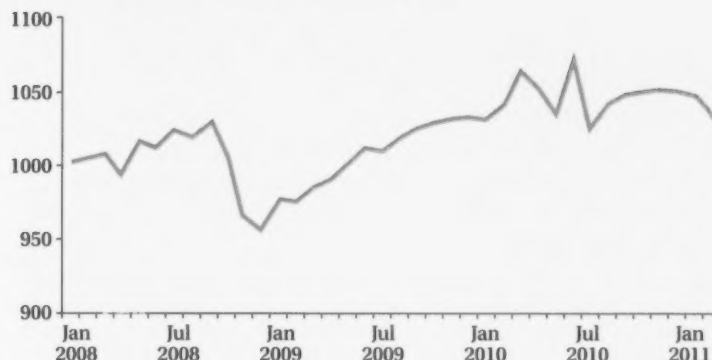
Nova Scotia

PROVINCIAL REPORT

- Economic growth in Nova Scotia appears to have slowed in recent months, suffering from a weak labour market, slower consumer spending and flat non-residential investment.
- Irving Shipbuilding is bidding for a major national shipbuilding contract that would provide significant economic benefits for the Halifax Shipyard.
- Despite a \$390m deficit this year, Nova Scotia is on track to return to budget balance by 2013/2014.

Retail Sales Growth Has Stalled in Nova Scotia

Retail sales, Nova Scotia, (\$ thousands, seasonally adjusted)



Source: Statistics Canada

Current Conditions

Economic growth in Nova Scotia appears to have slowed in recent months, suffering from a weak labour market, slower consumer spending and flat non-residential investment. On the plus side, urban housing starts are up, as are non-energy exports.

Employment in the province continues to struggle, with zero year-to-date growth as of April. While employment in the retail trade sector in the first four months of 2011 is up 3,500 jobs above 2010 levels, employment in education is 2,100 lower. On a positive note, Eden Valley Poultry is purchasing the Maple Leaf Foods Inc. pork processing plant in Berwick that was scheduled to close in April. The plant is expected to re-open in the summer of 2012 and employ up to 200 people. There have also been recent announcements to

support job growth in the financial services sector.

Average weekly wages increased by only 1.7% year-to-date as of March, well below the Canadian rate and well below the inflation rate of 3.4%, which is the highest in the country. The high inflation rate is largely the result of higher gasoline and home heating oil prices, and January's electricity price hike – all three components have a bigger weight than nationally. Last July's provincial HST increase is also boosting the inflation numbers.

Retail spending in the first two months of 2011 is up only 0.8% compared to 2010, consistent with weak wage and employment growth. Furthermore, after gasoline sales are removed, which have increased due to higher prices, retail sales have declined.

Non-residential investment in Nova Scotia has been flat since the third quarter of 2010. An increase in commercial spending has been matched by a decrease in industrial spending over the same period. However, urban housing starts were up 7.9% from 2010 levels in the first quarter.

Non-energy exports were up 10.4% in January and February from the same period in 2010, driven by increases in exports of tires, fish, newsprint and frozen fruit. Natural gas exports are flat, despite a nearly 14% drop in year-to-date production. (Total energy exports are up due to a \$109 million spike in crude oil exports in January, but this is likely a data error as Nova Scotia does not produce crude oil).

Halifax Shipyard

Irving Shipbuilding is bidding to be one of two shipyards selected under the National Shipbuilding Procurement Strategy. One contract, worth \$29 billion, is for surface combat ships and arctic offshore patrol vessels. The other contract, worth \$3.5 billion, will be for non-combat vessels. These contracts would represent a long term strategic relationship with the federal government and would provide a substantial boost to the shipbuilding industry in Nova Scotia.

The combatant vessels contract would create and sustain about 4000 direct jobs across Nova Scotia for the next 30 years. This number includes around 2,500 at Irving Shipbuilding, as well as 1,500 in the supply communities. Employment at Irving's Halifax Shipyard fluctuates with orders, but was about 900 as of mid-May 2011. Irving estimates the contract would create up to \$7 billion in direct payroll, \$2.7 billion in tax revenue, and \$6.7 billion in consumer spending in Nova Scotia over the 30-year period.

Five shipyards across the country have been shortlisted to submit proposals. The deadline for proposals is July 7, 2011. The two winning shipyards are expected to be announced this fall.

Provincial Budget

The Government of Nova Scotia projects a \$390 million deficit in

2011/2012. The receipt of \$149 million in federal transfer protection helped keep this year's deficit target close to the \$370 million projection from the 2010 budget. A large part of the reversal from last year's estimated \$447 million surplus to this year's deficit is due to double booking of \$342 million of university assistance in 2009/2010.

There were no significant revenue measures in the budget, but indexing of various personal tax credits and a reduction in the small business tax rate from 4.5% to 4.0 % will reduce tax revenue by \$13 million in 2011/2012.

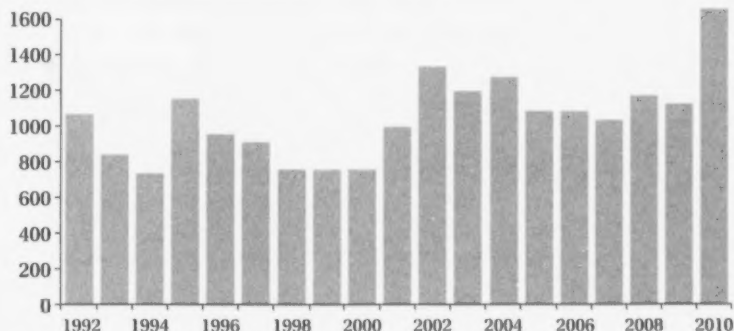
Total spending will be reduced by \$170 million in 2011/2012 due to a number of initiatives including: freezing district health authority budgets; reducing school board

budgets by 1.6%; reducing university assistance by 4%; a plan for fair drug pricing; and reducing the size of the civil service by 10% over four years. The province remains on track to balance its budget by 2013/2014.

Provincial net debt is forecast to increase \$679 million to \$13.7 billion in 2011/2012 because of the deficit and this year's planned capital spending of \$560 million. Net debt to GDP is expected to be 36.6% in 2011/2012, about 3 percentage points lower than the original budget estimate for 2010/2011.

National Shipbuilding Contract Would Provide Significant Boost to Nova Scotia

Ship and boat building employment, Nova Scotia (persons)



Source: Statistics Canada

New Brunswick

PROVINCIAL REPORT

- New Brunswick's economy is showing some weakness during the first part of 2011 after strong growth in 2010.
- The province is hoping to benefit from a number of natural resource developments.
- Cruise activity at the Port of Saint John remains strong.
- Tax increases and spending reductions should cut the New Brunswick deficit in half in 2011/2012.

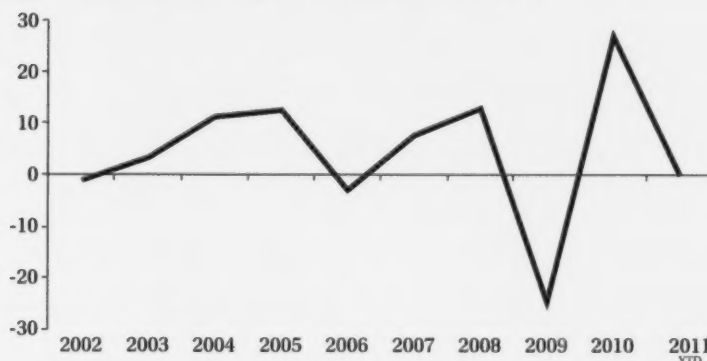
Current Conditions

New Brunswick's economy is showing some weakness during the first part of 2011. Employment fell 1.6% in the first four months of 2011, with the largest declines in business services and educational services. Retail sales were down in the first two months, excluding gasoline sales, which may have reduced retail trade employment. Some call centres also closed in 2010, including Eddie Bauer in Saint John, which would reduce business services employment.

The province's real GDP expanded by 3.3% in 2010, on par with Canada thanks to growth in manufacturing, forestry, fishing and mining. Potash Corporation's production volumes more than doubled in 2010, but production was still below its 2008 level. Although New Brunswick led

New Brunswick Export Growth Stalls in Early 2011

International merchandise exports, New Brunswick, annual change (%)



Source: Strategis Trade Data Online

the country in export growth in 2010 this has not continued into 2011, with exports increasing only 0.7% in the first two months of 2011. There were notable declines in natural gas, potash, pulp and paper, salmon aquaculture, and lead and zinc exports.

So far in 2011, manufacturing shipments have expanded 17% in the first two months, the third highest growth in Canada. Year-to-date there have been increases in food, non-metallic minerals, and fabricated metal manufacturing with higher oil prices boosting refined petroleum. Lower housing starts in Canada and the US and softening lumber prices reduced sawmill production and wood manufacturing shipments.

Housing starts in the first quarter were one-third of the level

experienced in the prior year, with declines across all housing types partially due to poor weather conditions. The Canadian Real Estate Association forecasts zero growth in existing home sales in 2011.

Non-residential investment increased 9% in the first quarter, with significant gains in institutional investment offsetting declines in industrial investment. However, Statistics Canada predicts non-residential construction will fall by 12% in 2011, as a result of lower spending by the public sector in 2011.

Retail sales excluding gasoline shrank by 0.9% in the first two months of 2011. Lower employment and slow growth in real wages placed a drag on retail sales growth. Average weekly wages increased 3.3% in the

first two months, suggesting 1% real growth compared to the inflation of 2.3% in the first quarter.

Natural Resources

The provincial government has been active in the resource sector, issuing a call for proposals for the development of the Millstream potash deposit in early April as well as launching a substantial policy framework for the development of the natural gas industry. There are nine companies active in the natural gas industry in New Brunswick, with exploration commitments totalling \$200 million over the next two years. This is in addition to the estimated \$44 million to be spent on mineral exploration in 2010 and 2011. The province hopes to negotiate an oil and gas offshore accord with the federal government, similar to those negotiated with Newfoundland and Labrador and Nova Scotia. A public consultation document issued by the New Brunswick Energy Commission also contains a number of recommendations focusing on the development, distribution and utilization of natural gas.

Cruise Activity

Over 200,000 cruise ship passengers and 70,000 crew members are expected to visit the Port of Saint John in 2011. Two new cruise lines are expected in 2011 and the high profile Disney Magic vessel will visit the port on nine occasions beginning in 2012. The Port of Saint John, along with the federal

and provincial governments, are investing \$14 million in the Cruise Gateway Project to increase cruise ship visits.

Budget

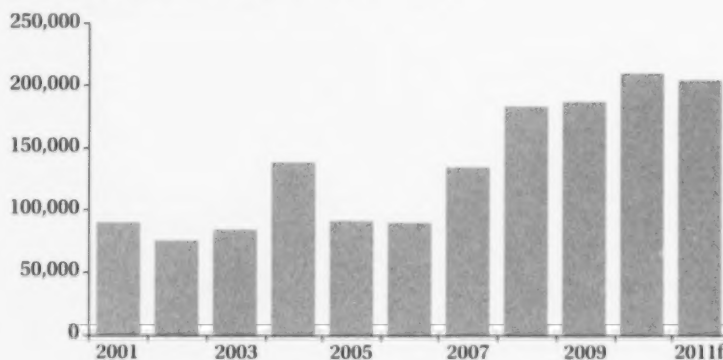
The provincial government is aiming to cut the deficit in half to \$449 million in 2011/2012. The budget will reduce spending by 1.6%, while revenues are forecast to grow by 2.1%. A government hiring freeze and efforts to broaden the two-year wage freeze should help reduce expenditures along with the efforts of the Office of Government Review which is seeking savings via regionalization, consolidation and better use of facilities. A recent wage settlement for over 3,200 education support staff freezes their wages for two years, followed by 2% wage increases in the two years thereafter.

While the small business tax rate is being reduced to 4.5%, the corporate income tax rate will only fall to 10% and there will be no further personal income tax relief, as promised by the previous government. Gasoline and cigarette taxes were increased, while the film tax credit was eliminated.

The deficit, combined with a \$593 million capital plan, is contributing to increased net debt, which will rise by \$630 million to almost 35% of GDP.

Saint John Cruise Passenger Traffic Riding the Wave

Cruise passenger traffic, Saint John (number of passengers)



Source: Saint John Port Authority

Atlantic Economic Snapshot

Please note that these data should replace the data for the unemployment rate (current month) in the third row.

	Period	NL	PE	NS	NB	ATL	CA
Unemployment Rate	Apr11	11.1	11.2	9.2	10.0	10.0	7.6
% (current month)	Apr10	15.0	9.2	8.6	8.5	9.9	8.1

Labour Markets

	Period	NL	PE	NS	NB	Atlantic	Canada
Employment	Jan-Apr 11	229.0	71.0	451.7	353.3	1,105.4	17,239.7
thousands (period avg.)	Jan-Apr 10	216.4	71.5	451.8	358.9	1,098.5	17,239.7
	% change	5.8	-0.7	0.0	-1.6	0.6	1.8
Unemployment Rate	Jan-Apr 11	12.2	11.4	9.3	9.6	10.1	7.7
percent (period avg.)	Jan-Apr 10	15.0	10.0	9.0	8.8	10.2	8.2
Unemployment Rate	Jan-Apr 11	14.0	11.8	10.4	9.4	10.9	7.6
percent (current month)	Jan-Apr 10	15.3	10.5	9.2	8.9	10.5	7.6
Average Weekly Earnings	Jan-Feb 11	876.0	718.3	763.1	781.5	784.7	874.2
dollars (period avg.)	Jan-Feb 10	827.6	690.4	750.5	756.6	756.3	838.5
	% change	5.8	4.0	1.7	3.3	3.8	4.3

Consumer Markets

	Period	NL	PE	NS	NB	Atlantic	Canada
Consumer Price Index (CPI)	Jan-Mar 11	119.9	121.1	121.2	118.3	n/a	118.4
2002=100, unadjusted	Jan-Mar 10	116.6	118.9	117.2	115.6	n/a	115.4
(period avg.)	% change	2.8	1.8	3.4	2.3	n/a	2.6
Residential Permits	Jan-Mar 11	199.2	27.1	226.0	101.5	553.8	10,616.3
\$ millions	Jan-Mar 10	210.8	30.0	236.2	144.9	622.0	11,496.7
	% change	-5.5	-9.7	-4.3	-29.9	-11.0	-7.7
Urban Housing Starts	Jan-Mar 11	252.0	63.0	641.0	93.0	1,049.0	31,502.0
Units; unadjusted	Jan-Mar 10	262.0	29.0	614.0	300.0	1,205.0	32,450.0
	% change	-3.8	117.2	4.4	-69.0	-12.9	-2.9
Rural Housing Starts	Jan-Mar 11	113.0	38.0	84.0	49.0	284.0	2,051.0
Units; unadjusted	Jan-Mar 10	174.0	14.0	77.0	123.0	388.0	2,564.0
	% change	-35.1	171.4	9.1	-60.2	-26.8	-20.0
Retail Trade	Jan-Feb 11	1,283.2	296.2	2,100.4	1,809.5	5,489.2	74,517.5
\$ millions	Jan-Feb 10	1,233.5	295.0	2,082.9	1,755.5	5,366.9	72,080.8
	% change	4.0	0.4	0.8	3.1	2.3	3.4

Industrial Markets

	Period	NL	PE	NS	NB	Atlantic	Canada
Total Non-Energy Exports	Jan-Feb 11	320.2	97.3	592.3	529.5	1,539.3	48,976.1
\$ millions, unadjusted	Jan-Feb 10	283.1	91.2	536.5	558.0	1,468.9	44,755.9
	% change	13.1	6.6	10.4	-5.1	4.8	9.4
Total Energy Exports	Jan-Feb 11	1,095.7	0.4	191.2	1,717.1	3,004.3	17,599.0
\$ millions, unadjusted	Jan-Feb 10	868.8	0.7	88.2	1,672.6	2,630.3	16,074.4
	% change	26.1	-41.4	116.8	2.7	14.2	9.5
Manufacturing Shipments	Jan-Feb 11	970.3	199.6	1,806.5	3,279.5	6,255.9	94,883.1
\$ millions	Jan-Feb 10	544.9	190.5	1,509.4	2,803.1	5,047.9	86,806.0
	% change	78.1	4.8	19.7	17.0	23.9	9.3
Non-residential Permits	Jan-Mar 11	30.0	15.9	61.4	34.6	141.9	4,456.7
\$ millions	Jan-Mar 10	33.4	7.0	67.8	35.5	143.7	3,592.8
	% change	-10.1	126.7	-9.4	-2.5	-1.2	24.0

Note: All data are seasonally adjusted unless noted (unadjusted) and are year-to-date totals unless noted (period average).

Source: Statistics Canada

The Atlantic Economic Snapshot is updated each month.
APEC members can access the latest version, along with other economic indicators, on our member website:
Visit www.apec-econ.ca/login.asp and select "Economic Trend Data".